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March 2, 2011

The Honorable Ben S. Bernanke
Chairman
Federal Reserve System
20th Street and Constitution Avenue, NW
Room 2046
Washington, D.C. 20551

Dear Mr. Chairman,

Thank you for your recent testimony before the Senate Banking Committee regarding the implementation of the Dodd-Frank Act. As you and the other regulators grapple with the rule on Qualified Residential Mortgages (QRMs), I want to elaborate on the concerns I raised at the hearing.

We share the concern that the federal government's role in housing finance has grown dramatically since the sub-prime crisis in 2008. This is a concern when mortgages being securitized by the Government Sponsored Enterprises have a government guarantee. Additionally, mortgages insured by the Federal Housing Administration (FHA) have an explicit government guarantee.

FHA insured mortgages had more than a 40 percent market share of all home purchase loans during the first nine months of 2010, and the volume of FHA insured loans is expected to continue to grow. The most recent Administration budget projects that the FHA insurance fund will increase 28 percent in this fiscal year and 10 percent in the next fiscal year. Taxpayer exposure for FHA mortgages is expected to be \$1.253 trillion by September 30, 2012.

One of the painful lessons we learned from the sub-prime crisis is that participants in housing finance will make perverse decisions when they have no exposure to credit risk, and shifting this risk entirely to American taxpayers is the ultimate moral hazard. The Dodd-Frank Act exempts FHA from the risk retention requirements that are the subject of your QRM deliberations. I fear doing this may inadvertently set the stage for another bailout.

One of the most important challenges you have in defining QRMs is what to do about low down payment mortgages. These loans are critical to first-time homebuyers. In fact, according to the National Association of Realtors, 86 percent of first-time homebuyers used low down payment mortgages last year. Since 1957, U.S. lenders have used private mortgage

insurance as a credit enhancement to effectively protect against homebuyers' defaults, many of which are first-time homebuyers.

Last week, a *New York Times* column suggested that bank regulators plan to mandate at least a 20 percent down payment to qualify as QRM's. If low down payment loans with private mortgage insurance are not included in QRM's, I am afraid banks may push first-time homebuyers to FHA loans so they will be exempted from retaining five percent of the credit risk. This could drive first-time homeowners out of the private secondary market and into taxpayer guaranteed loans.

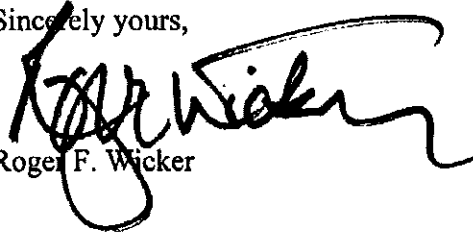
We are at an unusual time in American politics when our political leadership agrees that we need to demand prudential credit standards for home ownership. I hope this movement will lead my colleagues to join efforts to limit taxpayer guarantees. However, when virtually all first-time homeowners have access to government subsidized credit through FHA, I am afraid down the road some in Congress will unwisely return to enlarging this class of borrowers who have access to taxpayer guaranteed mortgages.

We should be encouraging private sector capital to return to the housing market, and private capital needs to be on a level playing field with the federal government. Prudently underwritten low down payment mortgages in the private sector are critical to a sustainable recovery of the housing finance market. As the Dodd-Frank Act allows, I hope you give due consideration to include loans backed with private mortgage insurance in your definition of Qualified Residential Mortgages.

I look forward to your reply. In the meantime, please let me know if I can ever assist you.

With best wishes, I am

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Roger F. Wicker', with a large, sweeping flourish extending to the right.

Roger F. Wicker

Cc: The Honorable Sheila Bair
The Honorable Mary Schapiro
The Honorable John Walsh
The Honorable Edward DeMarco